Fort Dodge CSD/EA (Teachers)

2002-2003
CEO - 263
SECTOR - 1

IN THE MATTER OF ARBITRATION

Between	**ARBITRATION AWARD**
Fort Dodge Community School District, Employer	
And	**Kim Hoogeveen, Ph.D.** **Arbitrator**
Fort Dodge Education Association, Employee Organization	**Issued: May 21, 2003**

APPEARANCES:

For the Association:

David A. Grosland, ISEA

Betty Fuller, ISEA

Douglas H Brightman

Claudia Harms

Clen Lincoln

For the District:

D. A. Haggard, Superintendent

Jerry Schnurr III, Board Member

Ernest Kersten, Board Member

Jeri Green, Board Member

Pam Rodewald, Human Recourses

Marcy Harms

STATEMENT OF JURISDICTION

This matter proceeded to an Arbitration Hearing pursuant to the statutory impasse procedures established in the Public Employment Relations Act, Chapter 20, Code of Iowa. The undersigned was selected to serve as arbitrator from a list furnished to the parties by the Iowa Public Employment Relations Board.

The parties agreed that there was no dispute as to negotiability of the issues at impasse or the jurisdiction of the single Arbitrator. It was agreed by the parties that the Association would present their case first, with the District to follow, and opportunity for both parties to subsequently rebut. The parties confirmed prior to and during the hearing that the Arbitrator shall have a full fifteen (15) days in which to render a decision.

The arbitration hearing was convened at 4:10 p.m. on May 9, 2003 in the Arey Building in Fort Dodge. Both parties were given a full opportunity to present exhibits, evidence, and arguments in support of their respective positions. The award is based on the evidence, facts, and arguments presented by the parties.

ARBITRATION CRITERIA

The Iowa Public Employment Relations Act contains specific criteria that are to be used by an Arbitrator in assessing the reasonableness of the parties' arbitration proposals. The criteria set forth in Section 20.22(9) are:

a. *Past collective bargaining contracts between the parties including the bargaining that led up to such contracts.*
b. *Comparison of wages, hours and conditions of employment of the involved public employees with those of other public employees doing comparable work, giving consideration to factors peculiar to the area and the classifications involved.*
c. *The interests and welfare of the public, the ability of the public employer to finance economic adjustments and the effect of such adjustments on the normal standard of services.*

d. The power of the public employer to levy taxes and appropriate funds for the conduct of its business.

e. Other relevant factors.

IMPASSE ITEMS

Two items were submitted for arbitration: Insurance and Wages.

BACKGROUND & FINAL OFFERS

These parties began this current bargaining process with their exchange of initial proposals in January 2003. Following those initial sessions, fourteen articles in the contract had been opened. The parties reached agreement on the majority of these articles before requesting mediation to assist with the remaining issues. Mediation, held on April 11, 2003, failed to resolve all issues and the Association filed a Request for Arbitration on April 16. When a subsequent mediation effort on May 1 was also unsuccessful, the parties proceeded with their exchange of final offers for arbitration.

Only two (2) issues remain at impasse: Insurance and Wages.

Insurance:

It should be noted that through the normal bargaining process, the parties have already agreed to significant changes in the current contract with regard to health insurance. Two years ago, likely in an effort to reach a mutual agreement to move from a traditional Health and Major Medical plan to a Preferred Provider Network, the District agreed to share the resulting savings with the Association via a letter of agreement. This has resulted in a significant stipend ($500 this year) being paid to each insured member of the bargaining unit. As part of these current negotiations, the parties have already agreed that this letter of understanding will expire after July 2003 resulting in no further stipends subsequently being paid to members of the bargaining unit. Given the substantial increase in medical insurance cost under any scenario proposed by either party, it now seems appropriate that the cost of the stipend be applied directly to health insurance costs.

As such, the original total cost projections of any salary and benefits package proposed by either party is reduced by the $195,000 cost of the employee stipend which will no longer be payable after July. The parties have further agreed to four coverage modifications within the existing PPO health plan, and these changes are incorporated into the final arbitration offers of both parties.

The District's Final Offer: To increase the current PPO 100 ($100 Single/$200 Family deductible) Health and Major Medical plan to a PPO 500 ($500 Single/$1,000 Family deductible).

The Association's Final Offer: To increase the current PPO 100 ($100 Single/$200 Family deductible) Health and Major Medical plan to a PPO 250 ($250 Single/$500 Family deductible).

Wages:

The District's Final Offer: To increase the Teachers' Salary Schedule (Schedule A) base by $400 from $23,985 to $24,385.

The Association's Final Offer: To increase the Teachers' Salary Schedule (Schedule A) base by $485 from $23,985 to $24,470.

RATIONALE OF THE PARTIES

Arguments were presented to the Arbitrator via testimony and exhibits. The following constitutes a brief summary of the assertions of the parties.

The District

The District paints a picture of declining enrollment and a resulting 0% allowable growth in spending, a sharply declining unspent balance, rapidly rising insurance costs, a high local tax rate, and tough economic times in the community. The District argues that its insurance proposal is necessary to limit cost increases and that its salary and total package proposals are within the settlement trend of other zero growth districts.

The Association

The Association suggests that they have already agreed to four coverage modifications to the insurance plan and are offering to increase the single/family deductible from 100/200 to 250/500 as well as the co-pay amounts for prescriptions. They assert that Fort Dodge teachers are not highly paid with respect to their peers in other comparable Districts and that many zero growth districts are funding settlements of 4% or greater. They further suggest that the District has already announced staff and expenditure reductions that make the Association's salary and total package costs both affordable and the most reasonable.

ANALYSIS AND CONSIDERATIONS

Each of the parties presented their case clearly at the hearing. Although it is not reasonable for the parties to expect a specific response to each and every one of their assertions and exhibits, what follows is my analysis of some key issues and the relative strength and rationale of some key arguments that were advanced.

Costing:

I spent considerable time costing the two proposals, relying primarily on Association Exhibit 6b and District Exhibits 11 and 12. It proved to be a somewhat challenging task due to the different present and future cost variables included in the various Exhibits. For example, District Exhibits 11 and 12 differ with respect to whether the cost of long-term disability (LTD) insurance is included. They also used different divisors, with the total current cost shown on Exhibit 11 being substantially higher than that shown on Exhibit 12 – with no apparent reason for the difference. After studying the Exhibits, it appears that District Exhibit 11 probably includes the cost of Phase money even though it is not shown on the Exhibit. Association Exhibit 6b does show and include the cost of Phase money, but does not show any cost for LTD.

If we include the $306,315 shown to have been expended on Phase II in Association Exhibit 6b, plus the $195,048 cost of the health insurance rebate and the

$24,241 LTD insurance expenditure shown for FY03 on District Exhibit 12, we come to a total FY03 expenditure of $16,961,580.

I have costed the proposals excluding Phase money from all considerations (note that this calculation also requires a reduction of the FICA and IPERS cost associated with Phase monies), while including the cost of LTD Insurance and the $195,048 cost of the insurance stipend paid this year. The result is a total current salary and benefit cost of $16,614,218. Using the best information and assumptions at hand, the following chart shows how I cost the four possible rulings that could be made:

	PPO 500	PPO 250
$400 base increase	3.41%	3.84%
$485 base increase	3.72%	4.01%

As can been seen from the chart above, the possible choices before me range from a total package cost of just over 4% to a low of 3.41%.

During the course of the hearing, it was noted by the Association representative that for some reason their contemporaneous costing of the District's total package proposal appeared to be somewhat lower (approximately 3.35%) than the District Exhibit showing the cost of their total package proposal to be 3.45%. I do not find anywhere in the Association's Exhibits an actual costing of the District's proposal. I suspect that the Association may have made a calculation error that would be easy to make given the unusual format discrepancy noted above between District Exhibits 11 and 12. As can be seen above, I would cost the District's proposal to be a 3.41% total package. The discrepancy from the District's 3.45% figure is that I have included the $195,000 cost of the insurance saving rebate in this base year's cost – a factor not included in the District's costing Exhibit 12.

In short, the costing Exhibits of the two parties are slightly bothersome in their inconsistencies. The total package costs change by only a few hundredths of a percent; however, depending upon which variables are included in the calculation, and although there is inconsistency between the costing methodologies used by the two parties, their respective final calculations appear to be very close to accurate.

Bargaining History:

Bargaining history is not particularly relevant to this award – a good thing given that the two parties provided completely different data regarding the total package settlements over the past five years.

Comparability:

General Comments

I find the Top 25 Schools comparability group used by both parties to be of questionable value. Fort Dodge now ranks 21st in this group, far from the middle, and with a total enrollment of roughly 1/8th that of the largest school. The Ten Above and Ten Below comparison group that the District also used would appear to be more valid, with an enrollment difference of under 3,000 between the largest and smallest school in the group. As such, I have relied more upon the District's Ten Above and Ten Below data when possible.

The District states in their opening statement that one of their key arguments to show the "reasonableness" of their salary proposal would be to show "settlements and new money reported on school districts in the same comparability group." The District did not, however, provide any information regarding settlements in the Ten Above and Ten Below comparison group. The District does report settlements for the Top 25 Schools comparison group, but the data is quite limited. (Note that the District reports the Newton settlement at 3.79% while Association Exhibit 7c reports Newton at 4.0% and 3.6% respectively by ISEA and IASB – yet another indication of the unreliability of settlement reports). As such, with regard to settlement trends, I have largely relied on the settlement information provided by the Association.

Comparability - Insurance

Neither party provided substantial information with regard to comparability for health insurance costs. The lone Exhibit was provided by the Association, which again compares Fort Dodge to only the Top 25 Schools. Nevertheless, using the only data available, we find Fort Dodge's 2002-03 single contribution of $379.29 to be above the $345 average of the comparison group and its $184 dependent contribution to be substantially below the comparison group average of $268.

For purposes of analysis, I created another comparison group for examination: the 13 districts in the Top 25 Schools group that are also in the Ten Above and Ten Below group, excluding Newton as it is not possible to be sure how to cost its reported expenditures. Here we find the average single contribution paid by a district to be $320 (contrasted with the 379.29 currently paid in Fort Dodge) and the average dependent contribution paid by a district to be $299 (contrasted with Fort Dodge's current contribution of $184.06). If we apply these average rates to the 2002-03 staff at Fort Dodge, we find that the District would have paid a total of $1,726,152 toward this bargaining unit's health insurance costs <u>if</u> they had paid these average amounts. In fact, according to the costing of both the District and Association, the Fort Dodge District actually paid $1,812,952 or 5.0% above the average district expenditure in the 13-school comparison group. In the same group of 13 schools, the respective average teacher contributions for single and dependent coverage were $0 and $195. Using these averages, the teachers in Fort Dodge would have contributed $266,760 toward health insurance premiums. In fact, teachers in Fort Dodge will contribute $503,600 this year toward their health insurance – a full 89% above the average. (Note that although Newton is an outlier in this data set, if we attempt to include Newton and make some assumptions as to how to cost their insurance package, it changes this to a 14-school comparison group and results in a conclusion that the District is paying 6.3% above the average district expenditures for health insurance and that the teaching staff is contributing 57% above what would be the case with the average teacher contribution in a 14-school comparison group.) Finally, it is worth noting that total premiums paid by both the District and members of the bargaining unit for health insurance in Fort Dodge this year will be approximately $2,316,554. This is 16.2% above what the total cost would have been, i.e., $1,992,912, if the District and Association were fortunate enough to have total premiums at the average rate of the 13-school comparison group. (Note that even if we use the full Top 25

Schools comparison group, we find Fort Dodge to have current total insurance premiums more than $180,000 (8.5%) above the average of those 25 districts.)

With the substantial insurance rate increase that Fort Dodge will be experiencing under either scenario before me, their single premium contribution will continue to substantially exceed the comparison group. The family contribution may or may not change with respect to a comparison group depending upon what the other districts are contractually obligated to pick up as rates increase (in Fort Dodge, the District is obligated to pay 1/3rd of the additional family premium), but it appears likely that the District's contribution to dependent coverage will continue to substantially lag the average of the comparison group. I do not find this pattern to be of concern, as I have never found the practice of paying substantially more total compensation to an employee on the basis of marital or family status to be particularly appealing with respect to equity.

Neither party provided any information on perhaps the single most relevant factor to the insurance issue in this impasse, i.e., what are the single and family deductibles on health plans provided by other school districts? I questioned both parties regarding this fact during the hearing, and each confirmed that they had no information regarding this issue due to the difficulty of securing such information.

Comparability - Wages

Each party spent a good amount of time providing comparability data on current wages at various steps throughout the salary schedule. Using the Ten Above and Ten Below comparison group, we find Fort Dodge to have a slightly below average minimum hiring salary with seven of the twenty comparison schools having a minimum salary below that of Fort Dodge. At step five of the BA schedule, Fort Dodge's salary is above only five of the twenty comparison schools. At the final step of the BA schedule, however, Fort Dodge is more competitive, i.e., their current salary rate is above that of sixteen of the twenty comparison schools. This is significant given the high number of current teachers at this step on the salary schedule.

When we look at the MA schedule, we find Fort Dodge slightly below the median (above seven schools in the comparison group) with respect to minimum hiring salary on the MA schedule. At step five of the MA schedule, the Fort Dodge salary schedule has fallen to the lower quartile of the comparison group. When we reach the final step of the MA schedule (again significant because of the relatively high number of current staff at this step), we find the Fort Dodge salary schedule to be above only five of the twenty comparison schools. Finally, when we examine average teacher salaries, the parties again presented somewhat contradictory data. In District Exhibit 32d, we find the average teacher salary in Fort Dodge to fall to the very bottom of the Top 25 Schools comparison group, while in Association Exhibit 5i we find the Fort Dodge average salary to still be toward the bottom, but above three other districts. The reported average salaries for the other schools in the comparison vary dramatically between these two similarly labeled Exhibits. I suspect that the District's Exhibit may be from older data as the Association reports higher average salaries for all of the districts in the comparison group. When we examine District Exhibit 33d we find average teacher salaries in Fort Dodge to be above only one other district in the Ten Above and Ten Below comparison group. Average teacher salary, however, can be misleading without a good understanding of how the Fort Dodge teaching staff compares with respect to average experience and level of training. Although neither party provided any information regarding comparisons of experience or training for the Ten Above and Ten Below comparison group, the Association did provide some related information for the Top 25 Schools comparison group. Admittedly somewhat "apples to oranges," it is nevertheless the best information available. Looking at that information, it would appear that the teaching staff at Fort Dodge has slightly more average experience than that of either the comparison group or the statewide average, with their average education level being just slightly below the comparison group and almost identical to the statewide average.

When we examine the settlements reported for the other twenty schools in the Ten Above and Ten Below comparison group, we get a somewhat different picture than what was presented by the Association during the hearing. Of these twenty schools, twelve have reported settlements. Of those twelve settlements, the average total package increase is reported to be 4.175%. (Note that the Association Exhibits on statewide teacher settlements apparently define "composite" as the ISEA reported settlement or the IASB reported settlement when ISEA has received no report. It does not mean what the term suggests, i.e., that it is the average between the reported settlements to ISEA and

IASB.) In the subset of four districts that will be receiving 0% new money, the average settlement is 3.87%. As I stated earlier, it is distinctly possible that these averages will fall as the remaining eight districts report their settlements. Another way to consider this information is to look at how much the average settlement was above new money. When examined this way, we find that the twelve schools that have settled have, on average, settled 2.05% above new money. (Note that three of the highest reporting twelve districts i.e., Southeast Polk, Johnston, and College, had settlements below anticipated new money.) In short, as is almost always the case, those districts receiving substantial new money are showing settlement trends above the statewide average, but not with respect to the amount of new money they are receiving. Those districts receiving little or no new money are tending to settle somewhat below the average, but again not with respect to their limited new money. Another way of stating this is that there is a significantly greater variance in the distribution of new money than there is in the distribution of total package settlements.

Of course, as this very dispute shows, simply looking at salary schedule comparisons can be misleading. Some districts may be putting substantially more dollars into benefits or supplemental salary schedules. Such would certainly appear to be the case in Fort Dodge because of the relatively high cost of health insurance. Nevertheless, it would appear safe to conclude that with respect to the salary schedule alone, the teaching staff at Fort Dodge could not be considered to be highly compensated with respect to any reasonable comparison group.

Welfare of the Public and Ability to Pay:

The District provided relevant information regarding the poor economic health of the local Fort Dodge community and the declining financial health of the District, e.g., declining enrollment, lack of allowable growth, and what they describe as "overall dismal economic indicators on the local, state, and national fronts." Although it is questionable whether or not "dismal" is an accurate descriptor of state and national economic conditions, the District did provide convincing evidence of economic stress in Fort Dodge and Webster County. They site numerous enterprises that have either closed or moved out-of-state with a significant corresponding loss of jobs. In addition, they indicate that receipts from the Local Option Sales and Services Tax have dropped significantly for the past two years reflecting a substantial slide in retail sales. Using the Ten Above and Ten Below comparison group, Fort Dodge would appear to have a relative high tax levy (i.e., above that of all but one of the twenty schools in the comparison group). They also appear to have a relatively low amount of taxable personal property wealth per student in the District with Fort Dodge's current valuation per pupil of $190,283 placing it slightly below the median of the group and approximately $20,000 below the average valuation per pupil of the Ten Above and Ten Below comparison group. The Association provided no information to refute the District's contentions regarding either economic stress in the community or the more than reasonable tax burden now being borne by local residents to support local education.

The District showed their Unspent Balance to be relatively lower on a per pupil basis than all but two of the twenty comparison schools in the Ten Above and Ten Below comparison group. In addition, the District also showed a recent declining trend in unspent balance. District Exhibits 28 and 36a/b appear to provide contradictory data with respect to the unspent balance at the end of the '01-'02 fiscal year. From looking at information presented by both the Association and the District, it appears that the accurate amount is $383,765. This figure is also stipulated in the text of the District Exhibit 24. The District states that they project the unspent balance to fall to less than $100,000 for this current fiscal year. What is not in doubt is that the trend for the unspent balance has been in a fairly steep decline over the past few years while cash balance has stayed between $5 and $6 million through the same period. Cash balance does not effect spending authority, however, I agree with the District's contention that it is prudent management for a district to maintain two to three months of operational expenses in cash balance.

The District appears to have taken proactive and responsible budgetary steps to help assure that it remains on sound financial ground. The Association points out that the District is anticipating significant cost savings from staff reductions, as well as other management steps that have been approved by the Board. The District understandably states that the Association should not consider the savings from such necessary managements steps as fair game for funding salary and benefit packages. Yet it seems reasonable for the Association to expect that some of those savings, much of which will come from reductions in staff, can be used to fund a settlement package that is consistent with the settlements being reached by other districts in similar financial condition.

It is clear to me that the Fort Dodge community has aggressively funded a quality education system, including the use of a cash reserve levy and an instructional support levy that began last year and will continue into the next fiscal year. But it is also true that the current teaching staff at Fort Dodge is not particularly highly compensated with respect to its peer group, even when we consider the above average funds being spent on health insurance. In short, these two considerations effectively balance each other out in this particular situation.

DECISIONS AND RATIONALE

Insurance:

The District notes that the Board has already taken action to increase the administrators' deductible to a PPO 500 level. Although worth noting, the District mentioned in the hearing that they believed a PPO 500 plan was consistent with what is being offered to employees in many businesses outside of education. It is also true that in many private business settings the heath insurance plan has variable deductibles dependent upon the employee's salary or position within the company. In short, if the District wishes to compare to private industry, there is nothing unusual about different employees having different deductibles.

I have elected to award the Association's position on insurance, i.e., the plan will move from its current PPO 100 to a PPO 250.

As explained earlier in this award, the health insurance cost for this unit is high relative to its peers and is rising at an alarming rate. While I agree that it is reasonable to expect the employees to absorb a portion of this cost increase, I would be more inclined to award the District's position if the Association had a long history of being intransigent with respect to this issue. This is not, however, the case. The Association recently agreed to move to a Preferred Provider Network, albeit with the use of an innovative "share the savings" Letter of Agreement. This year, the Association has voluntarily agreed to restrict four different coverage areas within the plan and to increase the single/family deductible from 100/200 to 250/500. Quite simply, at a time when the District is offering a below average salary settlement, and given the total lack of any comparability data regarding the size of deductibles in other districts, the District's proposal to move the current single/family deductibles from 100/200 to 500/1,000 represents an extremely large increase (i.e., 400%) in one year. With an average teacher's salary in Fort Dodge to be approximately $40,000 next year, an increase of $800 in the family deductible would represent 2% of the average teacher's gross salary. This is simply too big of a change to make in a single leap.

BUT, it is important that the Association recognize that this does not "settle" the insurance issue. This ruling puts an insufficient band-aid on the health insurance problem that the Association must help the District address, and if costs continue to increase at a substantial rate as I suspect they well might, it is quite likely that this issue will need to be revisited in the very near future, i.e., next year. I would encourage the parties to bring in outside expertise to help examine a full range of alternatives prior to the formal bargaining process next year. Further coverage modifications or changes to the plan structure may need to occur, deductibles may need to continue to increase, and/or the Association may need to shoulder a portion of the increased cost in another manner. For example, the Association may well be reluctant to agree to a cap on the insurance expenditure per employee paid by the District, but it should remain open to the possibility of having each covered employee make a specified monthly contribution towards their insurance cost, e.g., $15.00 per month. This capped employee contribution could then be negotiated from year-to-year allowing a mechanism whereby employees could pick up an appropriate portion of annual increases. Such a plan may well be preferable to increasing deductibles or continued coverage degradation.

As the Association will see in the next section, this insurance issue has (and is likely to continue to) cost them dollars that could otherwise be put into the salary schedule. This has a real dollar cost to teachers. This year they are receiving an $85 lower base than they otherwise would have had with the higher deductible, plus those taking dependent coverage will pay roughly an additional $120 in premium payments this year to have the lower deductible – a combination of factors that will cost experienced teachers with dependent coverage roughly $250.

Wages:

The District presented limited comparability data with respect to settlement trends. As such, I have largely utilized the Association's Exhibits, which show current reports from both ISEA and IASB. The most relevant trends to examine are those involving other districts throughout the State that are receiving 0% new money. Association Exhibit 7d shows ISEA to report the average settlement so far reported by these 0% growth districts to be 4.05%. IASB, reporting fewer districts, finds the settlement average to be 3.95%, and it is possible that the average settlement will decrease as more 0% growth districts reach final settlement. Arbitrators must not, however, restrict themselves to simply pegging settlements to the "current average settlement" of those districts that have reported at the time of the hearing. If so, the process of arbitration is reduced to a simple mathematical formula devoid of more complex (and oftentimes important) considerations.

I have elected to award the District's position on wages, i.e., the generator base for next year will increase by $400 to $24,385. This decision has obviously been impacted by the previous decision on insurance, and will result in a total package cost of approximately 3.84% – well within the settlement trend for like-situated districts and the most reasonable salary position given the financial trends in both the District and the more broad Fort Dodge community.

To the local taxpayer, it makes no difference if their education tax dollar goes toward insurance or salary – it can only be spent once, and the focus should be on total compensation. To award both issues to the Association would result in a total settlement that I find to be too high given the financial condition of the District, yet to award the District's position on both items would result in a settlement that would be too low, i.e., below well over 100 of the 132 reported settlements for districts receiving no new money.

THE AWARD

Wages: The position of the District is awarded.

Insurance: The position of the Association is awarded.

Signed this 21st Day of May, 2003.

Kim Hoogeveen, Arbitrator
6404 North 70th Plaza
Omaha, NE 68104

CERTIFICATE OF SERVICE

I certify that on the 21st day of May, 2003, I served the forgoing Arbitration Award upon each of the parties to this matter by mailing a copy to them at their respective addresses as shown below:

David Grosland 206 W. Seventh Street Carroll, IA 51401	Dr. David Haggard 104 S 17th Street Fort Dodge, IA 50501

I further certify that on the 21st day of May, 2003, I will submit this Award for filing by mailing it to the Iowa Public Employment Relations Board, 514 East Locust, Suite 202, Des Moines, Iowa 50309-1912.

Kim Hoogeveen, Arbitrator